

Docket No. RM2017-3 – Comments - PJF

Congress established a PAEA obligation to review the previous ten years, starting this December, 2016. Before presenting specific comments about this ten year time period of oversight by the Postal Regulatory Commission (PRC), it is critical to logical reasoning that we iterate the Mission to which the United States Postal Service (USPS) was commissioned. This 'Mission Statement' can be found in Section 101(a) of Title 39 of the U.S. Code, also known as the Postal Reorganization Act which was enacted as law on August 12, 1970. Specifically, the USPS Mission Statement says:

"The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities."

Before taking into consideration one or more of the nine specific objectives and fourteen related factors, as referenced in, *I Introduction* and *II Scope of Review*, it is imperative that the goal of this Mission Statement be clearly incorporated as the goal of the subsequently stated objectives and factors. To this important focal point, called here the 'end-line-goal-design' of the entire PRC and USPS effort, the following modification to 3622(b) is recommended; this with the understanding that the Postal Reorganization Act already includes the introduced sentence; it simply and clearly states the primary goals for which the subsequent objectives are designed to achieve:

"(b) OBJECTIVES.—Such system shall be designed to provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities. This shall be achieved through the following objectives, each of which shall be applied in conjunction with the others:"

By essentially providing effective service and delivery to all as the 'end-line-goal-design' the PRC can better align the nine objectives and fourteen factors¹ which must be taken into account. The most important comment may be this defining of the focus upon the primary goal. The balance of this paper presents three (3) viewpoints for each of the objectives outlined in section IV to which comments are specifically addressed. These viewpoints are:

¹ 39 U.S.C. 3622(c)

1. Discuss each Objective and the suggested measurable key concept within the ten year timeframe of the PAEA and its efficacy within that time period.
2. Provide historical context and evolutionary reasoning within the longer time frame starting with the formation of the United States Postal Service in 1970 through the conclusion of the PAEA's first 10 years in December 2016; looking forward to at least 2020 with the intent to recommend why the current PAEA Objective and/or its measurable key concept is in need of adjustment, addition or replacement.
3. Provide qualitative reasoning with brief Strength, Weakness, Opportunity, Threat (SWOT) methodology for the suggested changes to the Objective and/or its measurable key concept

A. *Objective 1: To maximize incentives to reduce costs and increase efficiency.*

1. Specific to work-sharing, that term embodies a mutual sub-goal of the "least combined cost of doing business together." Logically restating the objective: IF... incentives are attractive enough, AND... costs are less than incentive outlays, AND... efficiencies are improved/increased, THEN... the conclusion should ostensibly be that our aforementioned effective delivery is expected.

Given the limitations of the tools established 10 years ago, and with efforts ongoing to improve those measuring tools, I believe that the PRC, the Board of Governors (BOG) and the Executive Leadership Team (ELT) have worked cooperatively to accomplish this objective as best as they could to date.

2. RECOMMENDATION – Expand our understanding of the term 'maximize incentive' to oblige the consideration of the impact to 100% of the mail mix provided by the commercial mailing to which the incentive is being attributed.

The basis of this recommendation is the goal of 'effective delivery' of 100% of the mail that will be tendered to the USPS. It further recognizes a critical delivery measurement tool that is now available – software testing of the depth-

of-address validation down to the secondary (e.g. suite, apartment) delivery point.

In fact, even at this current moment, unless the address can be completely validated, at least to the level of the street address if there is no secondary address data, it is impossible to accomplish the *Domestic Mail Manual* (DMM) obligation to perform Move Update determination, a key criterion for obtaining access to the related incentives. This is a logical conclusion that must be recognized for its simplicity. IF... the software validating the address cannot reach the level of addressing within which the intended recipient lives. THEN... the USPS National Change Of Address (NCOA) software data cannot be used to determine if the recipient has a COA on file.

By example, if maximum incentives are offered to 100% of mail in the mailing based upon obtaining a Delivery Point BarCode (DPBC) with secondary addressing, if applicable, and only 97% of the address file can attain this level, the other 3% of the addresses, including those currently falling into the “presort-price,” CANNOT attain the Move Update and are under current law not eligible for any incentivized pricing. Extending this to the remaining mail commonly called “single-piece-price” mail, these mailpieces are so poorly addressed that they will certainly cause USPS process management tools to be applied that are very costly and inefficient and beyond the separate and distinct mail now known as “retail single piece” mail. Yet despite these additional costly and inefficient USPS efforts using data, mechanical and physical attempts to attain delivery, it is likely to a high degree of confidence that these mailpieces will remain Undeliverable-As-Addressed (UAA).

3. SWOT – STRENGTH: The ‘new’ measurement tool being suggested has actually been utilized for many years. Its more common name is ‘Coding Accuracy Support System’ (CASS™). CASS™ certification is available to all software developers, mailers, and service bureaus who wish to evaluate the quality of their address matching software.

CASS™ itself is a USPS software certification process that assures software vendor and mailer software maintains a high degree of accuracy converting address files into electronic data capable of matching to the USPS' national address data base. By so doing, the entire commercial mailing community can have confidence that their address files can be linked to USPS address locations and thereby the generated mailpieces are eligible for incentives since the results support effective delivery to the people, patrons and communities identified in the USPS Mission Statement.

SWOT - WEAKNESS: Current incentives ignore obvious relationships between mailpieces within a given mailing. This 'isolation' allows the mailing community to simply 'ignore' the obvious impact to USPS' cost and efficiency for those mailpieces unable to receive adequate DPBC coding. This is the principal reason for the past failure to reduce UAA mail. Undeliverable As Addressed (UAA) mail has received years of focus, yet stubbornly remains the largest cost and efficiency gap to effective delivery of 100% of the mail. Despite massive data improvements, UAA is stubbornly high and remains a significant cost to both mailer and USPS. According to one joint mailer/USPS source² recently:

“Undeliverable-as-Addressed (UAA) mail volume exceeds 6 billion pieces of mail annually and costs the United States Postal Service® approximately \$1.2 billion each year. UAA mail costs the mailing industry in lost revenue due to missing or delayed customer communications, and increased costs due to handling of undeliverable mail returned or customer dissatisfaction and complaints.”

Another source³ put the impact to the mailing community into dollars that clearly require a sober recognition by the PRC, USPS and mailing community for a major strategic change to define 'maximize incentive' as including 100% of the mail mix, 'good' and 'bad' mail, as provided by commercial mailers.

Paraphrasing the quote:

² Mailer's Technical Advisory Committee – Address Quality Methodologies, MTAC workgroup 97 & 177-July 2016

³ Undeliverable-As-Addressed Mail: A Global Problem Worth Solving, by Greg Brown in the January-February 2017 issue of Mailing Systems Technology

“...the cost to mailers themselves, estimated to waste nearly \$20 billion annually in UAA cost related to printing, shipping, and loss of long-term business and customer relationships.”

SWOT – OPPORTUNITY: Correctly focusing upon 100% of the mail will likely lead to significant reduction in UAA mail throughout the mailing community and USPS networks. This improvement in efficiency will have a direct effect on the current costs that are identified in the quotes at +\$20 Billion annually. There is no other mailing opportunity that presents such a powerful Return On Investment (ROI) as finally addressing the cause of UAA's stubborn resistance to improvement.

The recommendation is both an evolutionary consequence of continual Quality Improvement (QI) efforts and sound business practice that leads to Quality Assurance (QA) results. IF... the PRC expands our understanding of the term 'maximize incentive' to oblige the consideration of the impact to 100% of the mail mix provided by the commercial mailing to which the incentive is being attributed, AND... utilizing the described well-established measurement tool, THEN... a high confidence of 'effective delivery' can be the expected conclusion.

SWOT – THREAT: Now that 100% is being considered to maximize incentive, how much will those UAA addresses cost? What cost attribution can be assigned to the mail that cannot receive an adequate DPBC sufficient to determine if the recipient has filed a Move Update? If what has been previously discussed can be accepted as reasonable, then the logical consequence is that the mail pieces that contain these suspect addresses are guaranteed to require additional costly and inefficient efforts even BEFORE the mail is created. This result would correctly identify these addresses directly with the related costs attributable to UAA mail. As such, the reasonable conclusion regarding commercial mail is that there is no allowance to obtain a 'single-piece-price' better than the current retail price. Rather, a new price, developed to attribute all current UAA costs exclusive of retail mail costs, would be a balanced response. Are there any studies that may provide a price guestimate?

The Mailers Technical Advisory Committee (MTAC) Work Group 97 & 177 have produced a document in July 2016, called *Address Quality Methodologies*, which does provide a starting point. In the previous quote, they conclude that 6 billion pieces of mail cost the USPS approximately \$1.2 Billion yearly. That equates to \$0.20 per address or mail piece. Simply stated, to properly attribute the current, known costs of UAA mail, all commercial mail pieces unable to obtain a DPBC as noted above would be required to pay this \$0.20 price in addition to the commercial single piece price, currently \$0.46, as well as the cost for all additional ounces above the first ounce. This is NOT a price increase. This is an accurate cost attribution that has been recognized for years but has not received focused attribution. That cost attribution can now be accurately allotted since the cause has been clearly identified.

The resulting positive mailer response would be to utilize alternative address improvement methods outlined within that same MTAC publication. Historically, phone calls, emails or other electronic communications medium used to contact the intended recipient can happen before these mail pieces are created. Mailers can also not mail them. The reduction in mail volume cannot have a deleterious effect on the USPS because these mail pieces currently cost more than they provide in revenue margin. For those mailers who state they have an historic obligation in law to mail the items despite all of the objective evidence that points to a Move on file or the high confidence of non-delivery, these mailers simply pay the additional charge while they work through the address improvement options.

Lastly, should a valid argument be made that some of these UAA costs are already attributed to classes of mail, that cost attribution could be offset by projecting an improved incentive for the qualifying DPBC addresses. Example:

Total pieces		% UAA	UAA pieces		UAA cost	UAA total cost	DPBC pieces		DPBC Incentive	DPBC Total	\$ Impact +/-
1,000,000	x	3.00%	30,000	X	\$0.20	\$6,000.00	970,000	x	\$0.001	\$970.00	(\$5,030.00)
1,000,000	x	1.00%	10,000	X	\$0.20	\$2,000.00	990,000	x	\$0.001	\$990.00	(\$1,010.00)
1,000,000	x	0.10%	1,000	X	\$0.20	\$200.00	999,000	x	\$0.001	\$999.00	\$799.00

A. *Objective 2: To create Predictability and stability in rates.*

See Objective 3 for relationship to stability in rates. Otherwise, NO COMMENT.

B. *Objective 3: To maintain high quality service standards established under section 3691.*

1. The key measurable concept within the objective is “high quality service standards.’ Within a short period of the establishment of the PAEA, these service standards were developed as a comparison of the zone determination between two ZIP Code pairs. Postal Zones are described in the Mail Classification Schedule section 4010 as geographic units of area. The measurement of zone distances identified in section 4020 says:

“The distance upon which zones are based shall be measured from the center of the unit of area containing the dispatching section center facility (SCF) or multi-ZIP coded post office not serviced by a sectional center facility. A post office of mailing and a post office of delivery shall have the same zone relationship as their respective sectional center facilities or multi-ZIP Coded post offices, but shall not cause two post offices to be regarded as within the same local zone.”

These zones are the building blocks of these high quality service standards. These zones were not expected to change as their mathematical nature was thought to be solidly developed and based upon static SCFs. The SCFs and their respective zone distances were directly tied by DMM reference to an external Labeling List known as L005⁴ which contained the specific ZIP Codes serviced by each respective SCF. These SCFs formed the basis of the zone distances and are managed through the National Customer Support Center (NCSC). As established and given the limitations of the tools 10 years ago, I believe that the PRC, the Board of Governors (BOG) and the Executive Leadership Team (ELT) have worked cooperatively to accomplish this objective as best as they could to date.

⁴ Domestic Mail Manual (DMM) 708.10.1

2. RECOMMENDATION – Change the Zone determination to the center of stable 5-digit or 3-digit service areas.

The basis of this recommendation is the fact that SCF locations became destabilized starting in 2013 with the postal facility consolidations and their direct impact upon Label List L005. A significant change occurred in March 2015 when numerous SCFs were consolidated, changing the zone distances between the newly-established SCF service areas. It became more obvious in January 2016 when the SCFs Anchorage, Alaska, ZIP Code 995-996 and Fairbanks, Alaska, ZIP Code 997 were consolidated. Prior to January 2016 these ZIP Codes had a centrally distant point of Zone 4 (up to 600 miles) of each other. When a specific workload was transferred from the Fairbanks AK facility to the Anchorage AK facility the resulting change to L005 caused the incorporation of the two distinct ZIP Code service areas into one, reducing all distances within the new SCF to Zones 1&2 despite the actual centralized distance remaining at <600 miles. This had the unintended effect of impacting both the delivery service expectation and the prices for zone-rated products since all zones as previously described are intimately tied to all postal products whose prices have zone postage implication.

3. SWOT – STRENGTH: Current Global Positioning Satellite (GPS) data using the centrally located point of a given 5-digit or 3-digit service area would serve with a much greater stability as well as clearly identify the actual zone distance. These distances, especially those determined between two 5-digit offices, would more accurately identify the actual transportation distance being discussed and would greatly improve the accuracy of the current service standards deliverability expectation. These may be used for dual measurements; the three-digit ZIP Code pairs to determine postage prices and the 5-digit ZIP Code pairs to determine delivery service standard.

SWOT - WEAKNESS: Debate on the subject when it is clearly a mathematical exercise rather than an opinion-based suggestion. Clearly, there is a current revenue shortfall on-going and an unreliable service standard measurement basis in the SCF Label List L005.

SWOT – OPPORTUNITY: Proper zone determination is not simply a USPS need for developing prices and high quality service standards. All transportation and logistics businesses nationwide need a reliable mathematical product based upon sound principles in order to conduct business and adequately develop their own costing criteria from this important structural benchmark.

SWOT – THREAT: This necessary change will be twisted into an argument that it is a cover for an increase in postage prices or a reduction of delivery service standards. Neither could be further from the truth nor more readily dispelled by appropriating current science and technology in support of the eventual solid tool. This is not to say that some postage implications will not occur. Rather, any that may occur could be higher or lower based upon this change and should be recognized as akin to an accounting change that is simply being done one time to establish the future benchmarks for long term positive utilization.

C. *Objective 4: To allow Postal Service pricing flexibility.*

See Objective 5 for relationship to pricing flexibility. Otherwise, NO COMMENT.

D. *Objective 5: To assure adequate revenues, including retained earnings, to maintain financial stability.*

1. The current measurement for financial stability lacks an adequate focus on the transfer of First-Class letter and flat mail volume to the lower class, Standard Mail, now known as USPS Marketing Mail. This failure to recognize this important financial measurement predates the PAEA and has set the stage for the presumption that the erosion of all the First-Class letter-size and flat-size mail volume is caused by the Internet and other electronic means of communication. Establishing a measurement of the causes of the transference to the lower class would shed positive light on some valid reasons and simultaneously reveal inappropriate causes that threatens financial viability.

2. RECOMMENDATION – Include the clarifying definition that First-Class Mail, by virtue of its personal nature and potential financial impact to all the parties exchanging the communication, is in force when the intended recipient will be affected financially by the action or inaction taken in response to the mail piece.

The definition is completely unlike that for USPS Marketing Mail which carries a financial impact only to the sender unless and until the recipient decides to act upon the offer.

3. SWOT – STRENGTH: The change recommended would strengthen and clarify the nature of First-Class Mail as primarily a communication tool that requires consideration by the recipient in order to avoid or take advantage of a direct financial condition.

An actual example of this would be a class action suit that has been raised in court that alleges as its basis the inappropriate application of a credit card fee. Surely, in today's sophisticated data comparisons, whomever would receive such a notice would only be part of the potential class if the credit card they use was affected by the alleged fee. This is really a notification to a person known to have suffered a financial impact (presuming the court upholds the class action). Of course it behooves that person to act upon the notice being sent to them in order to be part of the aforesaid class action. Yet, current USPS standards allow this circumstance of certain financial impact to be down-graded to USPS Marketing Mail if there are 200 identical mail pieces, exclusive of the name and address. The mail piece now loses its one clear indication of potential personal value by the downgrade. It is very likely that the recipient, unaware of the class action, will toss the mail piece as a solicitation, and thereby lose out on the corrective action.

SWOT - WEAKNESS: The US court system does not realize the obvious ease with which the use of First-Class mail and its related massive address data base can be used in concert with the original financial utilization to provide solid information about the current location of those impacted by the alleged issue.

Additionally, the defendant's legal team knows well this inappropriate 200 piece rule and exploits it to ensure that the class affected will be reduced as much as possible by the mask of USPS Marketing Mail.

SWOT – OPPORTUNITY: The reconsideration and simplification of the definition of First-Class Mail to include the critical criterion of mutual financial impact can and will properly clarify First-Class for the understanding of the courts and other legally aware business circumstances.

An even greater benefit is that of being taught in our primary and secondary schools as the absolute basis for why the USPS holds First-Class Mail as a sacred trust, held in place for the protection of, and correct effective delivery to, all people, patrons and communities.

An unsubstantiated estimate of 1% of USPS Marketing Mail volume that could transfer back to First-Class Mail is 6 – 8 billion mail pieces along with the revenue margin that goes along with that transference.

SWOT – THREAT: The most obvious threat is not to the definition or exactly how either party is financially affected. The threat is from the current long-term misuse of USPS Marketing Mail to hide the true nature and importance of the mail piece. The threat includes a likely attempt to politicize the implications as some form of government interference or other obfuscation; one that tries to hide the evident transparency and benefit to the US consumer and business community.

E. *Objective 6: To reduce the administrative burden and increase the transparency of the ratemaking process.*

1. The administrative burden and transparency were less complicated at the onset of the PAEA. The succeeding years have caused both to increase dramatically due simply to the duality of prices (Market Dominant and Competitive) as well

as the granularization of the prices for each mail class and the corresponding processing categories and destination delivery transportation discounts. All this to be accomplished, not in three year cycles but in less-than-yearly efforts. Given this explosion to the challenges of moderating the administrative burden and advancing transparency of today's business cycle as compared to the limitations of the tools 10 years ago, I believe that the PRC, the Board of Governors (BOG) and the Executive Leadership Team (ELT) have worked cooperatively to accomplish this objective as best as they could to date.

2. RECOMMENDATION – A two-fold approach will accomplish a reduction in the administrative burden and simultaneously improving the transparency. This does so by clarifying:

1. 100% Automation opportunity by USPS for all mail:

Essential to tracking all mail and therefore providing data for compliance to delivery service standards, the address face for all three mail processing categories (letters, flats, parcels) requires a minimum 'address face' size. Current mailing standards correctly place focus upon letter-size mail and indicate that the minimum size is to be 3.5 inches in height and 5 inches in length. This well-established minimum two-dimensional size requirement is a tracking absolute, permitting current Intelligent Mail barcodes (IMbs) and Intelligent Mail package barcodes (IMpbs) to be placed by mailer or postal process to track letter and flat-size mail with extra services as well as all forms of parcels and the related services. Retaining this two-dimensional minimum aspect for flat-size and parcel-size mail strengthens transparency and eliminates the administrative burden of trying to figure out what mail can and can't be measured. ALL MAIL IS NOW ELIGIBLE TO BE TRACKED.

2. All three processing categories as either machinable or non-machinable:

Related to 'address face' size, the capability of individual products to be machinable or non-machinable directly influences prices and delivery

expectations. Current terminologies include vague statements like non-auto which does not describe its machinability potential. Even across different classes, mail with the same processing categories may be called non-machinable by one class and non-automation by another class. The mailing community deserves the simplicity of terms and their related prices that either can or cannot be processed on USPS processing equipment.

This is not the venue to delve into the various clarifications, but one example characterizes the current confusion and its simple change to transparency and related administrative simplicity; flat-size mail. A flat-size mailpiece can be considered machinable with a two-dimensional size as small as 5" X 6." However, if it is too light or flexible it may collapse upon itself since it is processed in an upright position. A mail piece is considered flat-size up to a thickness of 0.75." However, a mail piece that thick can weigh 40 ounces, well exceeding the 24 ounce practical weight limit of current mechanization. With practical limits in size and weight, this processing category will have clearly defined machinable AND non-machinable characteristics.

3. SWOT – STRENGTH: The entire mailing community can now be presented with two clear options which greatly simplify the administrative burden and clarify transparency. Simply stated, machinable items will be less costly and have a potentially shorter delivery window. Non-machinable items will have higher costs and a potentially longer delivery window (delivery service standards would have to be tied in). What becomes significantly obvious is the choice remains with the mailer based upon the perceived value to the sender or recipient; machinability or its counterpart are both automatable.

SWOT – WEAKNESS: The simplicity itself can be seen as 'too good to be true' and thereby miss raising this challenge immediately for the obvious benefits sought by reduced administrative burdens and clearer transparency. An added weakness is the ongoing loss of USPS institutional knowledge that can lead to missing this opportunity to clarify the PAEA going forward.

SWOT – OPPORTUNITY: Not since 1996 with the advent of Reclassification has this chance been raised as a potential clarification that sweeps away years of inefficiencies and establishes greater measurability for each of the processing categories regardless of class. That 1996 effort was instrumental in correcting the build-up of inadequate process controls over the preceding twenty-plus years, even as far back as 1970 when the first great experiment in industrial history established the Bulk Mail Center (BMC) system (now known as Network Distribution Center (NDC)). That historic consolidation of operations established the initial value chain of integrated mechanization.

Once raised to the level of excitement that was present in that 1996 effort, a renewed look at the past 20 years will clearly identify this as one of a handful of adjustments that will revolutionize current process management and lead to the next value chain – business intelligence through automation data.

SWOT – THREAT: MTAC work groups have tried to address these conditions in the past. However, current terminologies, including ‘irregular’ ‘non-auto’ and other conditions, like carrier route presorted mail, along with vested concerns by specific mailing groups that felt threatened by the effort, have led to limited success as well as the addition of still more twists. Past failures should be recognized as too little authority to accomplish the task.

F. Objective 7: To enhance security and deter terrorism.

1. To enhance mail security and deter terrorism it is reasonable to presume a review of available safeguards. One such area of concern, aside from the obvious need to keep it protected from data hacking, is our address data base. As established and given the limitations of the tools 10 years ago, I believe that the PRC, the Board of Governors (BOG) and the Executive Leadership Team (ELT) have worked cooperatively to accomplish this objective as best as they could to date.

2. **RECOMMENDATION:** Secure our General Delivery availability to known individuals. Currently, our Postmasters are supposed to know which individuals are a part of their General Delivery environment. A review of the available safeguards in our Address Management System (AMS) indicates that there is no organized management process identifying people who receive General Delivery at any post office.

General Delivery is the weakest addressing methodology. As such it is open to misuse by unscrupulous individuals or terrorist groups organized to take advantage of this ill-defined 'shadow' process. Conceivably, it should be reasonably easy to maintain a high level of accuracy regarding anybody who wishes to use General Delivery. This would not violate individual privacy. Rather, Postmasters require the provision of adequate identification from all individuals who wish to use the General Delivery process. That process is only available for a defined short period of time.

3. **SWOT – STRENGTH:** Specific, time sensitive address management of the General Delivery process would greatly improve the current database of individuals who are transient in nature at any given time. The process would even allow Move Update testing and accurate DPBC determination for those individuals legitimately utilizing this flexible delivery process.

A second benefit would relate to obtaining maximized incentives as discussed in Objective #1 above. With the accuracy of a General Delivery address database, current software would recognize the legitimate individuals using General Delivery within each post office and thereby allow the generic ZIP+4 code of +9999 to be appended, thus accurately providing the incentive or denying it to a software program that may simply default to General Delivery as a way of trying to obtain an undeserved incentive on those addresses.

SWOT – WEAKNESS: The extremely low number of individuals using General Delivery would make this appear to have no financial benefit when compared against the costs related to establishing and maintaining the program.

SWOT – OPPORTUNITY: General Delivery provides a known group of individuals who are currently without a specific address for various reasons to obtain the delivery of mail from those whom they wish to communicate. Providing a thorough process management mechanism is an essential element in assuring there are no gaps in security while affording users their legitimate expectation of effective delivery.

SWOT – THREATS: Not having a defined program allows on-going unknown circumstances to persist and potentially be explored for deleterious results.

H. *Objective 8: To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.*

1. The two measurable key concepts are just and reasonable. At the onset of PAEA the USPS was afforded a 1-year opportunity to adjust prices on market dominant products⁵ to resolve any workshare discounts⁶ that may be discrepant with known costs when compared to base line expectations. The USPS did not avail itself of that limited opportunity. As established and given the limitations of the tools 10 years ago, I believe that the PRC, the Board of Governors (BOG) and the Executive Leadership Team (ELT) have worked cooperatively to accomplish this objective as best as they could to date.
2. RECOMMENDATIONS: The class and processing category attributable costs now have data that requires a renewed look at alternative costing processes like Activity Based Costing (ABC). In concert with other recommendations made in this paper, those costs should result in projected prices more in line with incentives that properly share the benefits of worksharing.

⁵ 39 U.S.C. 3622(f)

⁶ 39 U.S.C. 3622(e)

A serious consideration must now be applied to the new USPS facility alignments which have begun the processing of mail volumes at facilities designed to manage processing categories separately. There no longer remains the two distinct process management environments of preferential mail kept separate from the economy classes. Although that realignment was halted for various reasons, the current facility locations and the mail that is processed require a complete relook from a cost ascertainment perspective.

It is considered reasonable to also expect a renewed review of interrelated mail classes that rely one upon the other. By example, the Periodical class has been consistently regarded as having workshare incentives exceeding the benefits to the USPS. Yet, the Periodical weekly, monthly and other periodic mailing schedules has a stability unlike any other class, providing the opportunity for USPS workload projections. Also, because Periodicals is a subscription-based class, regular USPS Marketing Mail mailings are sent to subscribers whose term is expiring. Often, First-Class mail is used by subscribers to pay subscription costs. These are all mail volumes that are threatened if the Periodical publication goes defunct.

3. SWOT – STRENGTH: Reconsideration of the costing attributes using the three approaches outlined above should provide a much clearer, more detailed picture of the two key measurements, Just and Reasonable.

SWOT – WEAKNESS: A significant allocation of costs are being attributed to Institutional costs at a time when there is a marked increase in reliable data that should more accurately place those costs upon the appropriate processing category and the associated mail class. By example, the 2017 Price Change effective January 22, 2017 increased the Market Dominant retail First-Class letter-size price by more than four percent (4%) from \$0.47 to \$0.49 while the comparable First-Class commercial letter-size price was reduced by one percent (1%) to \$0.46 from \$0.465. Aside from doing so based upon previous pre-exigent retail prices, what costs could be attributed to both environments such that the essentially same mail had disparate price changes?

SWOT – OPPORTUNITY: It is within this critical Objective #8 that the related fourteen factors⁷ truly come into active consideration. How does one now establish direct and indirect costs so that they can be attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type? The recommendations will surely provide debatable data as well as solid attributable data which will form the basis of a modified structure that the PRC can utilize to provide the oversight envisioned by the PAEA.

Lastly, pricing sensitivity can be volume or margin driven, whereby a volume of fewer mail pieces will cause an improved pricing when the revenue margin is recognized as higher. This compares to higher volume incentives for lower margin business.

SWOT – THREAT: Large mailers in both the market dominant and competitive mail arenas will have natural pricing advantages based simply upon their volume. However, this should not be construed as allowing these same mailers opportunities for operational deviations not available to the typical mailer who only obtains volume-based discounts and must abide by applicable DMM mailing standards. Under no circumstances is the current USPS operational environment capable of maintaining timely, structured processes that would allow any mailer to obtain operational benefits (for example 3-digit sortation of machinable parcels). These operational conditions are directly addressed by DMM standards that ensure consistency across the entire spectrum of mail operation processes.

By example, USPS competitors in the parcel delivery business can readily utilize the entire USPS delivery operations when they do not find it in their business interest to deliver the final mile themselves. In this way they are like every other USPS mailer who meets the same mail presortation standards in order to avail themselves of the tiered price reductions that are found within the drop shipment

⁷ 39 U.S.C.3622(c)

method known as Plant Verified Drop Shipment (PVDS). However, this is a one-way flexible business environment for these competitors who can focus upon keeping the product in their separate business environment until literally the last moments of the actual delivery date sought by the sender. The competitor can make the decision at the last minute to tender these parcel items to the USPS and can deposit them at the USPS Destination Delivery Unit (DDU) with little or no advance notice – a situation that can clearly affect USPS operational and delivery commitments previously in place based upon other conditions.

In addition it should be presumed as part of their business strategy that these competitors' position placed themselves within the opportunity to provide reduced prices (their own or lower USPS prices) that may absorb current Priority Mail or First-Class Package Service (FCPS) mail with lower, less beneficial USPS prices. As well, these competitors are currently trying to expand their delivery networks to eventually completely take away the mail volume they currently tender to the USPS, only doing so based upon their current strategy that considers only their own one-way costs/benefits.

These competitors should never be allowed to enter into Negotiated Service Agreements (NSA)s since their underlying strategy is to take the business for their own benefit. An NSA can provide competitors certain efficiencies that other USPS mailers cannot obtain, thereby making those other USPS mailers' volume subject to predatory transfer.

Likewise, extremely large mailers who are really third-party providers rather than the actual generator of the business commerce, can greatly diminish pricing opportunities by offering lower prices to other USPS mailers simply because they have NSAs with markdown percentages that are not currently available to the other USPS mailers, nor are these actual mail owners aware of these NSAs obtained by these third-party vendors since they are meant to be significantly non-transparent, a negative aspect of the NSA process.

I. *Objective 9: To allocate the total institutional costs of the Postal Service appropriately between market dominant and competitive products.*

1. The historical institutional cost allocations do not clearly align due in part to the separation of Market Dominant and Competitive products and the relationship between Retail products and Commercial products. Ten years ago there was only one postage system within which two types of mail were isolated: Market Dominant and Competitive. Given the limitations of the tools established 10 years ago, and with efforts ongoing to improve those measuring tools, I believe that the PRC, the Board of Governors (BOG) and the Executive Leadership Team (ELT) have worked cooperatively to accomplish this objective as best as they could to date.
2. RECOMMENDATION: The percentage of institutional costs continues to stay high despite improving accuracy of data that points at increasing capability to attribute actual costs. According to First Quarter FY 2017 results:

“(labor) compensation and benefits expenses increased by approximately \$654 million and, transportation costs increased by \$146 million. The growth in labor and transportation costs is largely due to the increase in Shipping and Packages volumes, which are more labor-intensive to process and require greater transportation capacity than mail. Transportation costs also increased to continue the significant improvement in service levels.”

This data appears to support placing those costs entirely upon the Competitive mail volume without need to provide institutional costs in the equation.

Institutional costs should clearly consider a limited list of applicable outlays. For example, institutional costs may be headquarters and district employees who perform largely adjunct duties supporting rather than being an essential part of any class or processing category. Conversely, the USPS facilities are becoming increasingly focused upon a specific mail processing category, allowing those costs to be allocated appropriately to the mail type (letter, flat, parcel).

3. SWOT – STRENGTH: The growth in the ability to allocate data due to the improved accuracy and depth of the sources should allow a major reduction in Institutional costs.

All postage statements contain line items which specifically point at the price claimed. Mailer eDocumentation attributes specific mail volume to be deposited at the various transportation discounts and locations. Gaps are significantly smaller between actual observed scans and presumed work processes. The clearly separate retail mail environment has been static or losing business, requiring a reduction in institutional cost allocations to these relatively stable environments.

SWOT WEAKNESS: Arcane methods must be squirreled out of current methodologies used to establish the institutional costs. Each should pass a new measurement of having validity or being obsolete. Past transportation assignment of unused space to institutional cost can now be easily placed against the mail type (significantly more so the parcel processing category) and potential class of mail normally used by that transportation.

SWOT OPPORTUNITY: The maturing of the Full Service Intelligent Mail process provides numerous windows for adjusting process management steps to conform with new advanced data like Informed Visibility. These data should soon become available to operations allowing actual workload decisions to be based upon the expected mail volume. This has the potential consequence of true, timely cost attribution dramatically reducing institutional cost attribution.

SWOT THREAT: The proposed mail error tolerances used in Business Mail Entry Scorecard are NOT based upon historical statistically realized values. By example, the past and current mail verification processes in place since 1981 allow mailers to have error tolerances up to 5% in their mail sortation. Beyond that 5% point, the errors become fully payable at the entire error percentage. The proposed methods being suggested for Full Service using Streamlined Mail Acceptance is to establish a tolerance like 5% but if errors cause the 5% to be exceeded, the mailer only pays for the error percentage exceeding 5%. This completely changes historically developed cost allocation and nowhere could it

be found that these new tolerances were analyzed by statistical process control methods used to establish the original values in 1981.

CLOSING

This concludes the review of the framework of potential definitions and measurement methods that the Commission established within Docket No RM2017-3 to begin its review of the market dominant ratemaking system.

Comments are included where overlapping affects are attributable to Competitive mail. Otherwise the focus has been upon providing brief recommendations with a logical result projected based upon comprehensive SWOT quality results.

It is hoped that the combination of recommendations based upon the longer term historical evolutionary process management changes are effectively iterated sufficient to allow interested parties to take informed logical steps toward conclusions that assist the Commission in developing new oversight criterion for the immediate future and onward into the succeeding decades, assuring the United States of a viable Postal Service that provides effective delivery and accomplishes its Mission Statement for years to come.

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